Steetley Industries Limited

Annual Report 1971

STEETLEY INDUSTRIES LIMITED
CONSOLIDATED STATEMENT OF SOURCE AND USE OF WORKING CAPITAL

	Six Months Ended June 30 1971	1970
	$	$
SOURCE OF WORKING CAPITAL		
Net earnings for the period	330,109	*179,827*
Charges not requiring cash outlay –		
Depreciation and depletion	357,095	*277,506*
Increase in minority shareholders' interest	6,723	*15,965*
	693,927	*473,298*
Long term bank loan	210,000	–
Repayment of 5% special refundable tax	–	*1,598*
Received on mortgages receivable	4,639	–
	908,566	*474,896*
USE OF WORKING CAPITAL		
Dividends paid	123,500	*114,000*
Purchase of fixed assets	578,974	*186,139*
Cash surrender value of life insurance	9,042	*6,720*
Investment in mortgage receivable	–	*36,333*
Purchase of shares of subsidiaries	841,442	–
Purchase of long term debt of subsidiary	254,800	–
	1,807,758	*343,192*
Increase (Decrease) in working capital	(899,192)	*131,704*
Working capital beginning of period	7,690,117	*5,767,216*
Working capital purchased	1,097,016	–
Working capital end of period	7,887,941	*5,898,920*

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INTERIM REPORT

FOR SIX MONTHS ENDED
JUNE 30, 1971

Steetley Industries Limited

TO OUR SHAREHOLDERS:

We report the unaudited consolidated results of the Company's operations for the first six months of 1971, together with comparative figures for 1970.

The 1971 figures include Fleck Bros. Limited for the period and Gough & Company Ltd. for five months, whereas the first half of 1970 did not include these two companies, but as explained in previous reports, the percentage return on sales in these businesses is lower than in our other operations.

Traditionally, the volume of business in the second half of the year, particularly in the stone divisions, exceeds the first half by a good margin and we fully expect the current year to follow this pattern. However, although we anticipate some increase in profit for the second six months of 1971 compared with 1970, it will not approach the 84% increase obtained in the first half of this year as the last half of 1970 included four months' earnings of Fleck Bros.

CONSOLIDATED STATEMENT OF EARNINGS

	Six Months Ended June 30th	
	1971	1970
	$	$
Sales	16,997,180	*7,570,389*
Cost of Sales	16,035,876	*7,011,610*
	961,304	*558,779*
Depreciation & Depletion	357,095	*277,506*
Profit from Operations	604,209	*281,273*
Investment Income	69,538	*112,947*
Gain on Sale of Assets	20,094	*30,737*
Profit Before Taxes on Income	693,841	*424,957*
Taxes on Income	353,000	*220,000*
	340,841	*204,957*
Minority Shareholders' Interest	10,732	*25,130*
NET PROFIT FOR SIX MONTHS	330,109	*179,827*
Earnings Per Common Share	35 cents	*19 cents*

Hamilton, Ontario.
August 6th, 1971.

J. S. SPEARING
President

Steetley Industries Limited

Annual Report 1971

Financial Highlights

	1971 $	1970 $
Sales	37,660,000	19,786,000
Net Income	1,207,000	853,000
Net Earnings per Common Share	$1.27	$ .90
Dividends Declared — per Common Share	$ .29	$ .24
Capital Expenditures	1,445,000	447,000
Depreciation & Depletion	760,000	569,000
Working Capital — Year End	7,983,000	7,690,000

VALUATION DAY VALUE The value of the Company's shares for the purpose of taxable capital gains as established December 22, 1971 is $7.00 per share.

Steetley Industries Limited

Corporate Information

Directors

J. C. Burd, Niagara Falls, Ontario
L. R. Dowsett, Worksop, Notts, England
H. M. Griffith, Toronto, Ontario
D. H. Henderson, Hamilton, Ontario
T. E. Ladner, Q.C., Vancouver, British Columbia
N. M. Peech, Worksop, Notts, England
C. G. Pirie, Freelton, Ontario
J. S. Spearing, F.C.A., Hamilton, Ontario

Executive Officers

N. M. Peech, Chairman of the Board
D. H. Henderson, Vice-Chairman of the Board
J. S. Spearing, F.C.A., President
H. E. Baker, C.A., Secretary-Treasurer

Operating Companies and other Executives

CANADA CRUSHED STONE
A. J. DeMarchi, Vice-President—Operations
R. M. Lennie, Vice-President—Sales

QUEENSTON QUARRIES
J. C. Burd, Vice-President & General Manager

MILLS STEEL PRODUCTS LIMITED
P. A. Neuman, Vice-President & General Manager

VALLANCE BROWN & CO. LIMITED
P. A. Neuman, Executive Vice-President

FLECK BROS. LIMITED — GOUGH & COMPANY LTD.
J. W. Miller, P.Eng., Executive Vice-President

Head Office	Harbour Administration Building Hamilton, Ontario.
Divisions	Canada Crushed Stone — Dundas Quarry Produces high grade dolomite stone for metallurgical, agricultural and commercial uses. Queenston Quarries — Niagara Falls, Ontario Produces commercial crushed stone, "Queenston Limestone" building stone and asphaltic concrete.
Subsidiary Companies	Mills Steel Products Limited — Hamilton, Ontario Manufactures concrete forming hardware, scaffolding, shores, and fasteners for the automotive industry. Vallance Brown & Co. Limited — Hamilton, Ontario Distributes industrial maintenance, safety and electrical supplies in southern Ontario. A steel service centre serves Toronto and the Niagara Peninsula. Fleck Bros. Limited — Vancouver, British Columbia Distributes industrial maintenance and safety supplies in British Columbia and the Yukon. Gough & Company Ltd. — Vancouver, British Columbia Distributes electrical supplies in British Columbia and the Yukon. Ritchie Cut Stone Holdings Limited — Hamilton, Ontario An investment holding company.
Associated Company	National Slag Limited — Hamilton, Ontario Processes blast furnace slag into aggregates for road construction and civil engineering.
Registrar and Transfer Agents	National Trust Company Limited — Toronto, Ontario
Auditors	McDonald, Currie & Co.

Steetley Industries Limited

Directors' Report

To the Shareholders of
Steetley Industries Limited

Your Board of Directors is pleased to submit the Twenty-First Annual Report of the Company, together with the Consolidated Balance Sheet and related financial statements for the year ended December 31, 1971, and the auditors' report to the shareholders. We have also included, for the first time, Financial Highlights and a Five Year Review.

CORPORATE

The shareholders at the Special General Meeting held on March 24, 1971 approved the subdividing of the Company's Common Shares on the basis of 5 for 1. This subdivision was completed in April 1971. There are now 950,000 issued Common Shares of which approximately 25% are owned by Canadian shareholders.

FINANCIAL

1971 was a record year both in sales and net earnings. The expansion programme into the industrial and electrical products distribution field, started in 1968 and accelerated in 1970/71, is proving advantageous.

Consolidated sales of $37,660,768 were up 90% from $19,786,141 recorded in 1970; however, the majority of this increase was due to the inclusion of Fleck Bros. Limited for a full year and the acquisition of Gough & Company Ltd. on February 1, 1971. As pointed out in previous reports, the profit return on sales in distribution companies is small but the return on investment is the measurement of success.

The net earnings after income taxes and minority shareholders' interest were $1,206,969 compared with $852,592 last year.

Earnings per Common Share amounted to $1.27 in 1971, an increase of 41% over the 90¢ earned in 1970 (as adjusted for the 5 to 1 Common Share split).

The increase in earnings over the last two years has been achieved by utilising internal resources and bank loans. The financial position of your Company is strong with the working capital rising to $7,982,565 as against $7,690,117 in 1970 whilst the Shareholders' equity has advanced to $10,344,884 from $9,144,030.

Investment income is lower than last year due to utilising funds for the acquisition of Gough & Company Ltd. and additions to fixed assets, coupled with lower interest rates. However, this was offset to some degree by the receipt of an increased dividend from National Slag Limited.

OPERATIONS

Canada Crushed Stone and Queenston Quarries

The Canada Crushed Stone Division, although maintaining sales, recorded lower operating profits. This was due to a number of reasons — increased labour costs not fully offset by higher selling prices, a severe winter which curtailed production, tighter specifications on sized stone and mechanical and operating difficulties with the dried fines plant. These problems have been, or are being, rectified and improved earnings could materialize in 1972 subject to a satisfactory settlement of the labour contract which expires at the end of April 1972. A major study is under way to consider modernizing the secondary crushing plant in order to increase capacities, improve the flexibility of production and reduce costs.

A new large capacity, fully automated, asphalt plant was installed at Queenston Quarries in September — increased road building and construction are forecast for the next five to seven years in the Niagara Peninsula. The demand for Queenston Limestone used in many prestige buildings in the past is declining due to newer methods of construction for large buildings. In spite of this Queenston Quarries' earnings were ahead of budget and compared very favourably with last year.

The Pits and Quarries Control Act 1971 affects both Canada Crushed Stone and Queenston Quarries Divisions. We will be subject to more Government control and increased costs in the years to come, and we hope that the interests of the ecology and the economy of the country can be successfully balanced.

Mills Steel Products Limited

Operating earnings at Mills were the best for a number of years and reflected increased activity in the construction field, coupled with manufacturing and operating efficiencies introduced over the last three years. Prospects for 1972 are therefore promising, subject to satisfactory settlement of construction industry union contracts, the majority of which come up for renewal in 1972, particularly in Ontario and British Columbia.

Industrial and Electrical Products Distribution

We are encouraged by the progress achieved in this field in 1971 and we are now assessing further expansion by acquisition or through the opening of new branches.

Vallance Brown opened a 20,000 square foot addition to its Steel Service Centre in Hamilton and introduced a new Safety Products Division in the latter part of the year. 1972 should reflect increased earnings from these expansions.

We are now firmly established in British Columbia and The Yukon through the acquisition of Fleck and Gough. Both companies recorded increased earnings over the year prior to acquisition.

A new joint branch for Fleck and Gough was opened at Cranbrook to service increased activity in the East Kootenay area whilst Gough opened a new branch at Prince George, complementing Fleck's established outlet. Management is now assessing the desirability of opening two new joint branches in British Columbia.

Your Company now has twenty-two warehouses and branches — nine in Ontario and thirteen in British Columbia and The Yukon.

A study is in progress to ascertain savings possible from centralized warehousing and distribution.

DIVIDENDS

Regular quarterly dividends were paid during the year amounting to 29¢ per share (compared with 24¢ on a subdivided basis in 1970). An extra 2¢ per share was paid on December 15, 1971 raising the quarterly dividend to 9¢ per share.

A dividend of 9¢ per share has been declared for the first quarter of 1972.

MANAGEMENT

A number of changes to strengthen the management of your Company have recently been announced. Mr. Peter A. Neuman, in addition to his responsibilities as Vice President of Mills Steel Products Limited, was appointed Executive Vice President of Vallance Brown & Co. Limited effective January 1, 1972. Mr. Philip G. Allanson, until recently Sales Manager of Steetley of Canada (Holdings) Limited, will be appointed General Manager of Mills Steel Products Limited on March 1, 1972.

Mr. David M. Jackson, B.Sc., M.B.A., has joined the Company January 31, 1972 as Manager — Corporate Development.

PERSONNEL

To our 750 employees across Canada we say a sincere "Thank You" for contributing to a further successful year. We look to them as an enthusiastic and dedicated team to work together over the coming year for our mutual benefit.

GOVERNMENT AND BUSINESS

We are concerned, as are so many other companies, by the amount and possible adverse effect of Government legislation, coupled with a lack of communication and understanding between Government and the business world. The Competition Act for instance, in its original form, would have had a detrimental effect on our distribution business.

There are however some encouraging signs of late. Both the Competition Act and proposed changes in the Labour Code have been withdrawn and there appears to be better understanding. Hopefully, there will be some specific action to improve communication between Government and business and thus assure close co-operation.

PROSPECTS

It is forecast that the Canadian economy will advance in real terms by at least 5% in 1972. However, many labour contracts, particularly in manufacturing and construction, are due for negotiation during the year and a great deal will depend on labour and management harmony. Subject to the above, we look forward to 1972 with confidence.

On behalf of the Board of Directors.

Hamilton, Ontario
February 10, 1972

J. S. Spearing
President

Steetley Industries Limited and Subsidiaries

Consolidated Balance Sheet

as at December 31, 1971

Assets		1971 $	1970 $
Current Assets	Cash	31,881	67,169
	Short-term investments — at cost (quoted market value 1971 — $830,406; 1970 — $2,718,700)	835,000	2,725,000
	Accounts receivable	6,577,025	4,024,381
	Accounts receivable — Parent company	26,095	25,277
	Inventories — at the lower of cost or net realizable value	7,678,885	4,697,331
	Prepaid expenses	33,991	67,355
		15,182,877	11,606,513
Deferred Charges and other Assets	Cash surrender value of life insurance	83,685	73,483
	Investment in National Slag Limited shares	12,500	12,500
	Mortgages receivable	169,281	161,507
	Scaffold equipment — at cost less amounts written off	220,371	225,435
		485,837	472,925
Fixed Assets (Note 2)		4,315,035	3,506,975
		19,983,749	15,586,413

SIGNED ON BEHALF OF THE BOARD — J. S. Spearing, Director; D. H. Henderson, Director

Liabilities and Shareholders' Equity

		1971 $	1970 $
Current Liabilities	Bank advances	3,193,444	1,782,937
	Accounts payable and accrued liabilities	3,633,621	1,909,846
	Income and other taxes	373,247	223,613
		7,200,312	3,916,396
Other Liabilities	Deferred income taxes	207,600	165,900
	Long-term bank loan	1,813,024	1,763,024
	Mortgages payable	35,450	53,385
	Minority interest in net assets of subsidiary company	382,479	543,678
Shareholders' Equity	CAPITAL STOCK		
	Authorized (Note 3)		
	5,000 6% Cumulative redeemable (at $105) sinking fund shares at a par value of $100 each		
	1,000,000 Common shares without nominal or par value		
	Issued (Note 3)		
	950,000 Common shares	95,000	95,000
	RETAINED EARNINGS	10,249,884	9,049,030
		10,344,884	9,144,030
		19,983,749	15,586,413

Steetley Industries Limited and Subsidiaries

Consolidated Statement of Earnings and Retained Earnings

for the year ended December 31, 1971

		1971 $	1970 $
Sales (Note 6)		37,660,768	19,786,141
Profit from Operations	Profit from operations before the following charges:	2,755,339	1,954,044
	Depreciation	738,943	547,600
	Depletion	20,829	20,911
		759,772	568,511
	Profit from operations	1,995,567	1,385,533
Financial	Investment income	255,249	301,982
	Gain on sale of assets	20,094	30,737
		275,343	332,719
	Profit before taxes on income and minority shareholders' interest	2,270,910	1,718,252
	Taxes on income	1,039,500	829,000
		1,231,410	889,252
	Minority shareholders' interest	24,441	36,660
Net Earnings for the year (Notes 4 and 7)		1,206,969	852,592
Retained Earnings	Excess of book value of shares purchased over cost	269,385	(6,848)
	BALANCE — BEGINNING OF YEAR	9,049,030	8,431,286
		10,525,384	9,277,030
	Dividends — Common	275,500	228,000
	BALANCE — END OF YEAR	10,249,884	9,049,030

Steetley Industries Limited and Subsidiaries

Consolidated Statement of Source and Use of Working Capital

for the year ended December 31, 1971

		1971 $	1970 $
Source of Working Capital	Net earnings for the year	1,206,969	852,592
	Charges not requiring cash outlay —		
	Depreciation and depletion	759,772	568,511
	Deferred income taxes	41,700	21,300
	Increase in minority interest	14,390	14,335
		2,022,831	1,456,738
	Decrease in mortgages receivable	9,442	—
	Repayment of 5% special refundable tax	—	11,574
	Proceeds on disposal of fixed assets	34,106	62,337
	Long-term bank loan	50,000	1,763,024
	Mortgage payable	—	53,385
		2,116,379	3,347,058
Use of Working Capital	Purchase of shares of subsidiaries	850,185	839,137
	Payment of long-term debt of a subsidiary	254,800	—
	Purchase of fixed assets	1,445,389	476,548
	Dividends paid	275,500	228,000
	Net additions to scaffold equipment	66,936	53,978
	Investment in mortgages receivable	—	29,951
	Decrease in mortgages payable	17,935	—
	Increase in cash surrender value of life insurance	10,202	7,723
		2,920,947	1,635,337
Working Capital	INCREASE (DECREASE) IN WORKING CAPITAL	(804,568)	1,711,721
	WORKING CAPITAL — BEGINNING OF YEAR	7,690,117	5,767,216
	Working capital purchased	1,097,016	211,180
		8,787,133	5,978,396
	Increase (decrease) in working capital	(804,568)	1,711,721
	WORKING CAPITAL — END OF YEAR	7,982,565	7,690,117

Steetley Industries Limited and Subsidiaries

Notes to the Consolidated Financial Statements

for the year ended December 31, 1971

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1. Basis of Consolidation

The consolidated financial statements include the accounts of all subsidiary companies. As of January 31, 1971, net assets in the amount of $943,981, represented by all the issued shares of Gough and Company Ltd. were acquired for cash of $715,209. The net earnings of this company are included from that date. The 1970 comparative figures include the net earnings of another subsidiary, Fleck Bros. Limited for four months. The statements of these two subsidiaries were examined by Messrs. Thorne, Gunn, Halliwell & Christenson, Chartered Accountants.

2. Fixed Assets

These are classified as follows:

	1971				1970
	Cost $	Accumulated Depletion $	Accumulated Depreciation $	Net $	Net $
Land	370,469	—	—	370,469	357,589
Buildings	2,043,355	—	632,620	1,410,735	1,140,479
Plant and equipment	7,805,769	—	5,866,111	1,939,658	1,419,391
Leasehold improvements	97,057	—	30,083	66,974	41,487
	9,946,181	—	6,528,814	3,417,367	2,601,357
Stone quarries	1,295,515	768,316	—	527,199	548,029
	11,612,165	768,316	6,528,814	4,315,035	3,506,975

3. Capital Stock

Under date of April 19, 1971, the company obtained Supplementary Letters Patent increasing its authorized common share capital from 200,000 to 1,000,000 shares. Subsequently, the issued common shares were split five shares for one.

4. Earnings per Share

Earnings per common share were $1.27 in 1971 and $ .90 in 1970.

5. Contingent Liabilities

The company is contingently liable as guarantor of loans to employees of a subsidiary aggregating $152,600.

6. Revenue from Operations

The sales from the operations attributable to the major business classifications are as follows:

Distribution	$32,937,953
Minerals	4,722,815
	37,660,768

7. Executive Remuneration

Remuneration of directors and executive officers for the year was $216,155 (1970 — $172,625).

8. Interest on Long-term Bank Loan

As required by Section 173(l)(i) of the Business Corporations Act, we report that interest on the long-term bank loan for the year was $148,155.

Auditors' Report

McDONALD, CURRIE & CO.

CHARTERED ACCOUNTANTS

COOPERS & LYBRAND IN PRINCIPAL AREAS OF THE WORLD

105 MAIN STREET EAST, HAMILTON 20, ONTARIO, CANADA. TELEPHONE (416) 525-0002

TO THE SHAREHOLDERS
STEETLEY INDUSTRIES LIMITED

We have examined the consolidated balance sheet of Steetley Industries Limited and subsidiaries as at December 31, 1971 and the consolidated statements of earnings, retained earnings and source and use of working capital for the year then ended. Our examination of the financial statements of Steetley Industries Limited and the subsidiaries of which we are the auditors included a general review of the accounting procedures and such tests of accounting records and other supporting evidence as we considered necessary in the circumstances. We have relied on the reports of the auditors who have examined the financial statements of the other subsidiaries.

In our opinion, these consolidated financial statements present fairly the financial position of the companies as at December 31, 1971 and the results of their operations and the source and use of their working capital for the year then ended, in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

McDonald, Currie & Co

January 21, 1972

Five Year Summary

Dollars in thousands except per share statistics

	1971 $	1970 $	1969 $	1968 $	1967 $
Operating Results					
Sales	37,660	19,786	15,881	14,052	6,298
Depreciation & Depletion	760	569	483	531	541
Earnings before Taxes	2,270	1,719	1,277	1,738	983
Taxes on Income	1,039	829	625	904	441
Minority Interest	24	37	38	37	—
Net Earnings	1,207	853	614	797	542
Financial Position					
Working Capital	7,983	7,690	5,767	5,473	4,472
Property, Plant & Equipment	4,315	3,507	2,981	2,864	2,685
Other Assets	15,669	12,079	8,199	8,363	5,419
Total Assets	19,984	15,586	11,180	11,227	8,104
Long Term & Other Liabilities	2,438	2,526	674	667	90
Shareholders' Equity	10,345	9,144	8,526	8,126	7,348
Per Share					
Net Income	$1.27	$ .90	$ .65	$ .84	$ .57
Dividends	.29	.24	.24	.24	.24
Book Value	10.89	9.63	8.97	8.55	7.73